Legislative Audit Division

State of Montana

Report to the Legislature

December 2005

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Livestock

This report contains four recommendations for complying with state and federal regulations and recording activity appropriately on the state's accounting system. It includes one disclosure issue regarding the use of deferred revenue associated with brand recording.

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Government Auditing Standards, the Single Audit Act Amendments of 1996, and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning
State Capitol
Helena MT 59620
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December 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Livestock for fiscal years 2004-05 and 2003-04. The report contains four recommendations concerning compliance with state and federal regulations and the proper recording of activity on the state's accounting system. The department's response is located at the end of the report.

We thank the Executive Officer and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Scott A. Seacat

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Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2005

Department of Livestock

Members of the audit staff involved in this audit were
Jeane Carstensen-Garrett, Laura L. Norris, Sonia Powell, and
Melissa Soldano.

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Appointed and Administrative Officials

Board of Livestock

		Term Expires March 1
William Hedstrom, Chairman	Kalispell	2011
Lee Cornwell	Glasgow	2007
Janice French	Hobson	2011
George Hammond	Hardin	2009
Linda Nelson	Nashua	2011
John Paugh	Bozeman	2007
Meg Smith	Divide	2009

Department of Livestock

Marc Bridges, Executive Officer

Thomas Lindfield, DVM, State Veterinarian, Animal Health Division

Centralized Services Division
- George Harris, Administrator
- Monte Nick, Bureau Chief, Milk Control Bureau

Bill Layton, DVM, DACVP, Administrator, Diagnostic Laboratory Division

Jack Wiseman, Administrator, Brands Enforcement Division

Sam Murfitt, Executive Secretary, Board of Horse Racing

Evaleen Starkel, Alternative Livestock Program

Meat, Milk and Egg Inspection Division
- Todd Gahagen, Bureau Chief, Milk and Egg Bureau
- Carol Olmstead, Bureau Chief, Meat and Poultry Division

For additional information concerning the Department of Livestock programs, contact:

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Department of Livestock
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Helena MT 59620-2001
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Department of Livestock

This audit report documents the results of our financial-compliance audit of the Department of Livestock (department) for the two fiscal years ended June 30, 2005.

This report contains four recommendations where the department could improve accounting and enhance compliance with federal and state policies and laws. It also contains one disclosure issue regarding the use of brand rerecord deferred revenue. The department's written response to the audit recommendations begins on page B-3.

We issued a qualified opinion on the financial schedules contained in the report. The opinion on page A-3 discusses financial errors in recording federal revenues, Board of Horse Racing activity, and revenue from new brands and brand transfers. This means the reader should use caution when analyzing the presented financial information and the supporting data on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS).

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department comply with federal regulations and:

A. Direct charge personal service costs to federal grants based on actual time spent by employees; and

B. Maintain documentation of hours worked. 6

Department Response: Concur. See page B-3.

Report Summary

Recommendation #2	We recommend that the department: A. Spend brand rerecord fees as allowed in state law; and B. Work with the Board of Livestock to determine the most appropriate way to repay the $130,531 it overspent in fiscal year 2004-05. ..... 7 Department Response: Concur. See page B-3.
Recommendation #3	We recommend that the department monitor its employees to ensure the department complies with state law and department policy for depositing inspection fees timely..... 8 Department Response: Concur. See page B-4.
Recommendation #4	We recommend the department record its financial activity in accordance with state accounting policy. ..... 10 Department Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Montana Department of Livestock (department) for fiscal years 2004-05 and 2003-04. The objectives of the audit were to:

1. Determine if the department complied with applicable state and federal laws and regulations.
2. Review the department's control systems and make recommendations for the improvement of management and internal controls of the department.
3. Determine if the department's financial schedules present fairly its changes in fund balances and results of operations for each of the two fiscal years ended June 30, 2005.
4. Determine the implementation status of prior audit recommendations.

This report contains four recommendations to the department. The recommendations address areas where the department can improve its compliance with state and federal laws and regulations and record department activity appropriately on the state's accounting records. Other areas of concern not having a significant effect on the successful operations of the department are not included in this report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report.

Background

The Department of Livestock was established to provide for the control and eradication of animal diseases, the prevention of transmission of animal diseases to humans, and the protection of livestock from theft and predatory animals. The department is also responsible for regulating the state milk and horse racing industries.

The department is administered by a seven-member Board of Livestock (board). The members of the board are appointed by the governor and confirmed by the senate to serve six-year terms. The

board appoints an executive officer who is responsible for the operations of the department and ensuring board policies, directives, and rules are carried out. The department is organized into five divisions and was authorized 145.5 full-time equivalent (FTE) employees in fiscal year 2004-05.

Centralized Services Division (23.29 FTE) - provides budgeting, accounting, payroll, legal, purchasing, and data processing services to the department. This division also includes the Milk Control Bureau, the Milk Control Board, the Predator Control Program, and the Board of Horse Racing. The Milk Control Board, which has been administratively attached to the department since July 1, 1995, is responsible for the regulation of milk producer pricing. The Predator Control Program contracts with the U.S. Department of Agriculture to control predators that injure or kill domestic livestock. The Board of Horse Racing monitors and regulates the horse racing industry in Montana, and has been administratively attached to the department since July 1, 2001.

Brands Enforcement Division (61.71 FTE) - includes the Inspection and Control Program which is responsible for brand inspections, recording of livestock brands, dealer licensing, and livestock theft investigations. This program has employees in 15 market centers and 18 districts throughout the state. The Livestock Crimestoppers Commission is administratively attached to the department. This commission provides a reward program for information used in the detection of livestock related crimes.

Animal Health Division (18 FTE) - includes the Disease Control Program. This program is responsible for the control and eradication of animal diseases and the prevention of transmission of animal diseases to humans.

Diagnostic Laboratory Division (21 FTE) - provides laboratory support for the Disease Control Program, Milk and Egg Program, veterinarians, and livestock producers. The Diagnostic Laboratory operates on the Bozeman campus of Montana State University.

Meat, Milk, and Egg Inspection Division (21.5 FTE) - includes the Milk and Egg Program and the Meat and Poultry Inspection Program. The Milk and Egg Program ensures that eggs and milk products sold or manufactured in the state are fit for human consumption. The Meat and Poultry Inspection Program provides for a state-certified supply of wholesome meat products for retail consumption.

Prior Audit Recommendations

We performed the financial-compliance audit of the department for the two fiscal years ended June 30, 2003. The department concurred with the one recommendation contained in the report regarding recording financial activity. We noted the department partially implemented the recommendation, as discussed on page 8.

Additionally, in the 2003-04 audit of the state's basic financial statements, we identified a conflict in law affecting the department. One state law requires the Board of Horse Racing to record its activity in an agency fund, while it allows the Board of Horse Racing to spend its funds for its own benefit. Another state law and generally accepted accounting principles (GAAP), state an agency fund can only account for assets and liabilities of an entity other than the government.

While state law currently conflicts with GAAP, the 59th Legislature enacted House Bill 53, which changed the Board of Horse Racing's fund to a state special revenue fund. According to department personnel the effective date of the bill is July 1, 2007, because the legislature was concerned about compliance with the state of Montana's spending cap. During the interim the department is required to record the activity in the agency fund resulting in the misclassifications found in Table 1 on the next page.

Introduction

Table 1

Board of Horseracing Over and (Under) Statements

State Special Revenue Fund	Fiscal Year 2004-05	Fiscal Year 2003-04
Fund Balance July, 1	$ (241,984)	$ (263,080)
Revenues	(329,238)	(345,855)
Expenditures	(340,076)	(366,951)
Fund Balance June, 30	(231,146)	(241,984)
Agency Fund		
PHIT* Balance July, 1	241,984	263,080
Additions to PHIT	329,238	345,855
Deletions from PHIT	340,076	366,951
PHIT Balance June, 30	231,146	241,984

* Property Held in Trust

Source: Compiled by the Legislative Audit Division from department accounting records.

Findings and Recommendations

Unallowable Federal Costs

The department cannot support the personal service costs it allocated to its federal programs.

Federal regulations require that to claim reimbursment for personal services the department must track and maintain documentation of the time spent on federal projects. These regulations specifically disallow the use of a planned budget to allocate personal services to a federal program.

The department used the three procedures, discussed below, to recover direct and indirect personal service costs from the federal government. None of the three procedures used are in compliance with federal regulations.

- The department negotiated an indirect cost proposal rate with the Federal Government for one of its federal grants. Rather than charging the negotiated rate, the department allocated one position in the Centralized Services Division (CSD) to the federal grant. The position in CSD did not work solely on the federal grant to which it was charged. Department personnel stated the allocation of the position was intended to cover the indirect costs from the CSD for that federal grant.
- To recover indirect costs of the remaining federal grants, the department established budgets for each federal grant, including personal services from CSD. All CSD personnel recorded their time to the State Special Revenue Fund (SSRF) and did not maintain documentation of the time spent on each federal program. Throughout the year the department transfered personal service costs from the SSRF to the federal grant based on the established budget.
- The department established a budget for the direct personal service costs for the majority of its federal grants. Some of these personnel, who worked directly on the federal grants charged all of their time to the SSRF. Additionally, department personnel did not maintain documentation of the time spent on each federal program. During the year the department transferred the personal service costs from the SSRF to the federal grant based on the established budget of the federal grant rather than the hours department personnal worked on the federal program.

Department personnel thought that these methods of recovering costs were allowable according to federal regulations. Since these

methods for recovering costs are not allowed by federal regulations, we question the allowability of $153,700 and $264,936 personal services costs charged to federal programs in fiscal years 2004-05 and 2003-04, respectively. The department should only charge personal services to federal grants based on actual time spent and maintain documentation of the hours worked.

Recommendation #1

We recommend the department comply with federal regulations and:

A. Direct charge personal service costs to federal grants based on actual time spent by employees; and

B. Maintain documentation of hours worked.

Brand Rerecord Fees Overspent

The department spent $330,531 of deferred revenue associated with brand rerecord fees without the required approval from the Board of Livestock (board).

The department records livestock brands and collects fees associated with recording those brands. Once every ten years brand owners must rerecord their brands.

State law allows the department to spend in excess of ten percent of the brand rerecord revenue in a fiscal year if the board declares a state of emergency. During fiscal year 2004-05, the board did not declare a state of emergency, and the department spent $330,531 in excess of its ten percent limit.

Department personnel indicated they thought the board provided approval to spend more brand rerecord funds in the current fiscal year, as it had done in previous fiscal years. At the September 2005 Board of Livestock meeting, the board retroactively approved the use of the deferred revenue up to $200,000. As a result, the department is not in compliance with state law, because it spent more than the board approved. The department should spend its brand rerecord fees as allowed in state law and work with the board to determine the

most appropriate way to repay the rerecord fund for the $130,531, it overspent.

Recommendation #2

We recommend that the department:

A. Spend brand rerecord fees as allowed in state law; and

B. Work with the Board of Livestock to determine the most appropriate way to repay the $130,531 it overspent in fiscal year 2004-05.

Untimely Deposits

The department did not deposit its inspection fees in accordance with state law.

The department has 18 district brand inspectors. These inspectors collect a fee for each inspection they perform and deposit the fees in a local bank or forward the fees to Helena for deposit. According to state law and department policy, the department is required to deposit receipts when collections reach $500 or within a week of the collection, whichever occurs first.

During our audit, we reviewed six inspection fee deposits. None of the six deposits were deposited in accordance with state law. The delays ranged from two weeks to five months late. We determined the department deposited at least five percent, or $18,237, of its total inspection fee revenue untimely.

One district brand inspector stated he normally deposits his collections weekly, as required by state law and department policy; however, sometimes he was too busy and did not follow the guidance. We noted other inspectors did not deposit fees in accordance with state law. Department personnel stated they were unaware the district brand inspectors were not depositing in accordance with state law. No department procedures exist to monitor compliance with deposit policy and law.

The department has increased risk of theft, loss, or misappropriation of state assets because it does not follow deposit requirements. The department should implement additional procedures to ensure deposits are made in accordance with state law.

Recommendation #3

We recommend that the department monitor its employees to ensure the department complies with state law and department policy for depositing inspection fees timely.

Accounting Errors

The department made various accounting errors while processing transactions.

According to state law the department is required to record all necessary transactions before the books close at the end of the fiscal year in order to present the receipt, use, and disposition of all money, and property for which the agency is responsible in accordance with generally accepted accounting principles.

We noted the following instances where revenues or expenditures were posted to the incorrect account on the state's accounting records due to human error, lack of knowledge, lack of documented procedures, and changes in accounting policy.

- The department uses meat-packaging facilities to process carcasses of non-diseased animals it has killed. State accounting policy classifies this activity as Other Services. The department recorded meat-packaging payments as Supplies and Materials in fiscal year 2004-05 and as Other Expenses in fiscal year 2003-04. Expenditures are misclassified by $39,456 and $24,336 in fiscal years 2004-05 and 2003-04, respectively.

- The department receives money from the federal government in advance of the expenditures to operate various federal programs and records the funds as revenue. State accounting policy requires the department to recognize revenue when it incurs expenditures for most federal programs. During fiscal years 2004-05 and 2003-04, the department recorded revenue it had

not yet earned for the majority of its federal programs. The effect of these errors are summarized in Table 2 on page10.

- Department personnel identified errors in the State Special Revenue Fund balance for accounting activity recorded prior to fiscal year 2003-04. Accounting policy requires the department to post corrections for accounting errors made more than one year prior to the current year directly to a fund balance account. While correcting the identified errors in fiscal year 2004-05, the department inappropriately adjusted current year revenues rather than adjusting fund balance. The effect of these errors are summarized in Table 2.

- The Department of Revenue (DOR) assesses and collects the per capita livestock tax and it remits 98 percent of the tax to the department. By law the DOR retains a 2 percent processing fee from the per capita tax revenue. The department records the net taxes it receives from DOR as total tax revenue. Since DOR collects the taxes on a regular basis as a convenience for the department, state accounting policy requires the department to record tax revenue at 100 percent and an expenditure for the 2 percent collection service. The effect of this error is summarized in Table 2.
- The department records new brands and brand transfers every year. These brands and brand transfers are valid until the next renewal period in calendar year 2011. The department recorded revenue for the full amount of the new brands and brand transfers. State accounting policy requires the department to defer any unearned revenue and record it over the life of the brand. The effect of this error is summarized in Table 2.

Findings and Recommendations

The following table shows the net effect of the previously listed errors:

Table 2

Net Over (Under) Statements due to Accounting Errors

	Fiscal Year 2004-05		Fiscal Year 2003-04	
	State Special Revenue Fund	Federal Special Revenue Fund	State Special Revenue Fund	Federal Special Revenue Fund
Total Revenues	$ 69,706	$ 83,286	$ 34,300	$ 178,216
Direct Entries to Fund Balance	57,726			
Total Expenditures	(65,641)		(65,609)	

Source: Compiled by the Legislative Audit Division from department accounting records.

As previously discussed, the above listed errors occurred on the accounting records due to lack of knowledge, lack of documented procedures, human error, and changes in accounting policy. The department should take steps to ensure it records its financial activity in accordance with state accounting policy.

Recommendation #4

We recommend the department record its financial activity in accordance with state accounting policy.

Use of Brand Rerecord Resources

The department used brand rerecord resources to manage its cash short fall over the past four years.

State law requires brand owners to record their brands with the department once every ten years. After the fees are collected, the department is allowed to spend 1/10th of the money each fiscal year. State law also provides an exception stating if the Board of Livestock (board) or the governor declares a state of emergency, the department may spend more than ten percent of the fees.

During fiscal years 2001-02, 2002-03, 2003-04, and 2004-05 the board and the department spent more funds than the original ten percent.

On an annual basis the following table shows expenditures in excess of revenues and the cumulative amount of resources spent in excess of the ten percent annual limit.

Table 3

Deferred Revenue Spent Prior to Recognition

Fiscal Year	Expenditures in Excess of Revenues	Cumulative Overspent Deferred Revenue
2001-02	$ 361,132	$ 361,132
2002-03	198,995	560,127
2003-04	97,384	657,511
2004-05	330,531	988,042

Source: Compiled by the Legislative Audit Division from the state's primary accounting records.

Annually, the board earns $455,115 of brand rerecord revenue. Over the past four years the department spent more than six years of brand rerecord resources. We estimate the department will have

insufficient cash resources to pay its obligations for a portion of fiscal year 2008-09 and all of fiscal years 2009-10 and 2010-11.

We present this for information purposes only and make no recommendation at this time.

Independent Auditor's Report & Department Financial Schedules

DEPARTMENT OF LIVESTOCK
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund		Agency Fund
FUND BALANCE: July 1, 2004	$ (37,037)	$ 691,816	$ 178,209	$	$ 0
PROPERTY HELD IN TRUST: July 1, 2004					$ 301,950
ADDITIONS					
Budgeted Revenues & Transfers-In	7,897	6,404,605	1,544,083		
NonBudgeted Revenues & Transfers-In	1,351	630,202			
Prior Year Revenues & Transfers-In Adjustments	(40)	(119,740)	(26,531)		
Direct Entries to Fund Balance	552,084	45,683	(41,579)		
Additions to Property Held in Trust					6,180,508
Total Additions	561,292	6,960,750	1,475,973		6,180,508
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	532,665	6,019,202	1,432,489		
NonBudgeted Expenditures & Transfers-Out	(495)	560,844			
Prior Year Expenditures & Transfers-Out Adjustments	5,735	39,344	1,869		
Reductions in Property Held in Trust					6,247,033
Total Reductions	537,905	6,619,390	1,434,358		6,247,033
FUND BALANCE: June 30, 2005	$ (13,650)	$ 1,033,176	$ 219,824	$	$ 0
PROPERTY HELD IN TRUST: June 30, 2005					$ 235,425

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2003	$ (21,381)	$ (109,000)	$ 235	$ 0	$ 14,057
PROPERTY HELD IN TRUST: July 1, 2003				$ 293,911	
ADDITIONS					
Budgeted Revenues & Transfers-In	4,492	6,507,120	1,424,093		
NonBudgeted Revenues & Transfers-In	1,190	40,235			
Prior Year Revenues & Transfers-In Adjustments		(98,516)	441,222		
Direct Entries to Fund Balance	520,665	14,817			(14,057)
Additions to Property Held in Trust				2,856,163	
Total Additions	526,347	6,463,656	1,865,315	2,856,163	(14,057)
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	541,705	5,627,529	1,659,395		
NonBudgeted Expenditures & Transfers-Out		31,748	5,759		
Prior Year Expenditures & Transfers-Out Adjustments	298	3,563	22,187		
Reductions in Property Held in Trust				2,848,124	
Total Reductions	542,003	5,662,840	1,687,341	2,848,124	
FUND BALANCE: June 30, 2004	$ (37,037)	$ 691,816	$ 178,209	$ 0	$ 0
PROPERTY HELD IN TRUST: June 30, 2004				$ 301,950	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	$ 4,432	$ 736,267		$ 740,699
Taxes	1,351	3,718,509	$ 392	3,720,252
Charges for Services		1,724,684		1,724,684
Investment Earnings		80,892		80,892
Fines, Forfeits and Settlements	3,425			3,425
Sale of Documents, Merchandise and Property		4,886		4,886
Grants, Contracts, Donations and Abandonments		74,195		74,195
Other Financing Sources		566,557		566,557
Federal		9,077	1,515,512	1,524,589
Federal Indirect Cost Recoveries			1,648	1,648
Total Revenues & Transfers-In	9,208	6,915,067	1,517,552	8,441,827
Less: Nonbudgeted Revenues & Transfers-In	1,351	630,202		631,553
Prior Year Revenues & Transfers-In Adjustments	(40)	(119,740)	(26,531)	(146,311)
Actual Budgeted Revenues & Transfers-In	7,897	6,404,605	1,544,083	7,956,585
Estimated Revenues & Transfers-In	5,159	7,580,448	3,935,215	11,520,822
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 2,738	$ (1,175,843)	$ (2,391,132)	$ (3,564,237)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	$ 563	$ (77,946)		$ (77,383)
Taxes		(35,785)		(35,785)
Charges for Services		(919,229)		(919,229)
Investment Earnings		(49,408)		(49,408)
Fines, Forfeits and Settlements	2,175			2,175
Sale of Documents, Merchandise and Property		1,497		1,497
Other Financing Sources		(92,848)		(92,848)
Federal		(2,124)	$ (2,385,779)	(2,387,903)
Federal Indirect Cost Recoveries			(5,353)	(5,353)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 2,738	$ (1,175,843)	$ (2,391,132)	$ (3,564,237)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	$ 4,342	$ 714,120		$ 718,462
Taxes	1,190	3,788,646		3,789,836
Charges for Services		1,796,311		1,796,311
Investment Earnings		33,467		33,467
Fines, Forfeits and Settlements	150	2,175		2,325
Sale of Documents, Merchandise and Property		3,920		3,920
Grants, Contracts, Donations and Abandonments		53,547		53,547
Other Financing Sources		42,657		42,657
Federal		13,996	$ 1,865,315	1,879,311
Total Revenues & Transfers-In	5,682	6,448,839	1,865,315	8,319,836
Less: Nonbudgeted Revenues & Transfers-In	1,190	40,235		41,425
Prior Year Revenues & Transfers-In Adjustments		(98,516)	441,222	342,706
Actual Budgeted Revenues & Transfers-In	4,492	6,507,120	1,424,093	7,935,705
Estimated Revenues & Transfers-In	5,159	11,442,482	2,375,492	13,823,133
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (667)	$ (4,935,362)	$ (951,399)	$ (5,887,428)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	$ 433	$ (1,824,534)		$ (1,824,101)
Taxes		(260,073)		(260,073)
Charges for Services		(2,541,647)		(2,541,647)
Investment Earnings		(197,833)		(197,833)
Fines, Forfeits and Settlements	(1,100)	2,025		925
Sale of Documents, Merchandise and Property		(2,958)		(2,958)
Other Financing Sources		(103,443)		(103,443)
Federal		(6,899)	$ (951,399)	(958,298)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (667)	$ (4,935,362)	$ (951,399)	$ (5,887,428)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ANIMAL HEALTH DIVISION	BRANDS ENFORCEMENT DIVISION	CENTRALIZED SERVICES PROGRAM	DIAGNOSTIC LABORATORY PROGRAM	MEAT & POULTRY INSPECTION	MILK & EGG PROGRAM	Total
Personal Services							
Salaries	$ 519,859	$ 1,738,440	$ 628,052	$ 682,482	$ 513,508	$ 184,626	$ 4,266,967
Other Compensation			8,600				8,600
Employee Benefits	153,943	606,373	194,786	224,419	184,798	57,082	1,421,401
Total	673,802	2,344,813	831,438	906,901	698,306	241,708	5,696,968
Operating Expenses							
Other Services	300,208	61,359	475,193	43,877	22,784	379	903,800
Supplies & Materials	120,286	95,363	24,888	280,893	7,411	17,461	546,302
Communications	38,086	55,652	30,823	16,390	16,830	9,905	167,686
Travel	36,175	26,092	48,066	5,632	52,386	12,267	180,618
Rent	27,114	472	106,012	1,361	79,558	111	214,628
Utilities	1,682	11,963		37,222			50,867
Repair & Maintenance	49,633	30,545	9,565	30,598	1,868	3,012	125,221
Other Expenses	(13,752)	14,999	9,395	55,285	2,816	2,264	71,007
Total	559,432	296,445	703,942	471,258	183,653	45,399	2,260,129
Equipment & Intangible Assets							
Equipment	44,533			6,800		19,186	70,519
Total	44,533			6,800		19,186	70,519
Transfers							
Accounting Entity Transfers		164,037	400,000				564,037
Total		164,037	400,000				564,037
Total Expenditures & Transfers-Out	$ 1,277,767	$ 2,805,295	$ 1,935,380	$ 1,384,959	$ 881,959	$ 306,293	$ 8,591,653
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund				$ 91,911	$ 445,994		$ 537,905
State Special Revenue Fund	$ 396,041	$ 2,805,295	$ 1,841,982	1,293,048	6,474	$ 276,550	6,619,390
Federal Special Revenue Fund	881,726		93,398		429,491	29,743	1,434,358
Total Expenditures & Transfers-Out	1,277,767	2,805,295	1,935,380	1,384,959	881,959	306,293	8,591,653
Less: Nonbudgeted Expenditures & Transfers-Out	(213)	162,296	399,457	(589)	(496)	(107)	560,348
Prior Year Expenditures & Transfers-Out Adjustments	1,456	19,590	615	15,995	6,148	3,145	46,949
Actual Budgeted Expenditures & Transfers-Out	1,276,524	2,623,409	1,535,308	1,369,553	876,307	303,255	7,984,356
Budget Authority	2,213,927	2,836,139	2,204,195	1,452,871	914,277	311,950	9,933,359
Unspent Budget Authority	$ 937,403	$ 212,730	$ 668,887	$ 83,318	$ 37,970	$ 8,695	$ 1,949,003
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund					$ 295		$ 295
State Special Revenue Fund	$ 238,814	$ 212,730	$ 632,256	$ 83,318		$ 3,623	1,170,741
Federal Special Revenue Fund	698,589		36,631		37,675	5,072	777,967
Unspent Budget Authority	$ 937,403	$ 212,730	$ 668,887	$ 83,318	$ 37,970	$ 8,695	$ 1,949,003

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LIVESTOCK
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ANIMAL HEALTH DIVISION	BRANDS ENFORCEMENT DIVISION	CENTRALIZED SERVICES PROGRAM	DIAGNOSTIC LABORATORY	MEAT/POULTRY INSPECTION	MILK & EGG PROGRAM	TOTAL
Personal Services							
Salaries	495,838	1,701,936	637,674	648,987	537,202	191,343	4,212,980
Other Compensation			10,450				10,450
Employee Benefits	137,295	551,509	180,069	192,245	174,218	55,400	1,290,736
Total	633,133	2,253,445	828,193	841,232	711,420	246,743	5,514,166
Operating Expenses							
Other Services	211,475	5,235	460,643	30,781	29,438	1,017	738,589
Supplies & Materials	142,299	87,125	24,033	188,734	20,695	12,724	475,610
Communications	51,163	53,239	26,201	15,212	17,181	5,767	168,763
Travel	39,748	29,874	51,508	7,125	42,949	10,382	181,586
Rent	23,387	889	102,891	1,563	78,174	174	207,078
Utilities	1,725	12,600		31,084			45,409
Repair & Maintenance	11,491	29,657	7,362	43,003	5,062	3,572	100,147
Other Expenses	54,537	6,057	26,723	47,561	2,428	361	137,667
Total	535,825	224,676	699,361	365,063	195,927	33,997	2,054,849
Equipment & Intangible Assets							
Equipment	207,275			84,146			291,421
Total	207,275			84,146			291,421
Transfers							
Accounting Entity Transfers		31,748					31,748
Total		31,748					31,748
Total Expenditures & Transfers-Out	$ 1,376,233	$ 2,509,869	$ 1,527,554	$ 1,290,441	$ 907,347	$ 280,740	$ 7,892,184
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund				$ 91,910	$ 450,093		$ 542,003
State Special Revenue Fund	$ 275,232	$ 2,509,869	$ 1,455,783	1,176,130	6,475	$ 239,351	5,662,840
Federal Special Revenue Fund	1,101,001		71,771	22,401	450,779	41,389	1,687,341
Total Expenditures & Transfers-Out	1,376,233	2,509,869	1,527,554	1,290,441	907,347	280,740	7,892,184
Less: Nonbudgeted Expenditures & Transfers-Out	5,759	31,748					37,507
Prior Year Expenditures & Transfers-Out Adjustments	3,105	508	2,545	19,139	597	153	26,047
Actual Budgeted Expenditures & Transfers-Out	1,367,369	2,477,613	1,525,009	1,271,302	906,750	280,587	7,828,630
Budget Authority	2,219,606	2,822,860	2,195,393	1,453,705	918,179	283,844	9,893,587
Unspent Budget Authority	$ 852,237	$ 345,247	$ 670,384	$ 182,403	$ 11,429	$ 3,257	$ 2,064,957
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund					$ 5,736		$ 5,736
State Special Revenue Fund	$ 378,160	$ 345,247	$ 605,384	$ 182,403		$ 3,145	1,514,339
Federal Special Revenue Fund	474,077		65,000		5,693	112	544,882
Unspent Budget Authority	$ 852,237	$ 345,247	$ 670,384	$ 182,403	$ 11,429	$ 3,257	$ 2,064,957

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Livestock for each of the fiscal years ended June 30, 2005, and 2004. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

The department recorded federal revenue it had not earned in fiscal years 2004-05 and 2003-04. On the Schedule of Changes in Fund Balance & Property Held in Trust for fiscal year 2004-05, the Federal Special Revenue Fund's beginning Fund Balance, Total Additions, and ending Fund Balance are overstated by $178,071, $41,706, and $219,777, respectively. On the Schedule of Changes in Fund Balance & Property Held in Trust for fiscal year 2003-04, the Federal Special Revenue Fund's Total Additions and ending Fund Balance are overstated by $178,071.

During fiscal years 2004-05 and 2003-04, the department recorded the Board of Horse Racing in the Agency Fund rather than the State Special Revenue Fund. Additionally, the department recorded new brand and brand transfer revenue before it earned the revenue in the State Special Revenue Fund. On the Schedule of Changes in Fund Balance & Property Held in Trust for fiscal

year 2004-05, the State Special Revenue Fund's ending Fund Balance is overstated by $101,849, while Total Additions and Total Reductions are understated by $251,617 and $340,076, respectively. On the Schedule of Changes in Fund Balance & Property Held in Trust for fiscal year 2003-04, the State Special Revenue Fund beginning Fund Balance, Total Additions, and Total Reductions are understated by $66,649, $286,912, and $366,941, respectively.

In our opinion, except for the matters discussed in the previous two paragraphs, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances & property held in trust of the Department of Livestock for each of the fiscal years ended June 30, 2005 and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 5, 2005

Montana Department of Livestock
Notes to the Financial Schedules
For The Two Fiscal Years Ended June 30, 2005

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category General Fund, State Special Revenue Fund, and Federal Special Revenue Fund. In applying the modified accrual basis, the department, records:

Revenues when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Fiduciary fund category, the Agency Fund.

Expenditures may include: entire budgeted service contracts, even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific revenue sources, other than private purpose trusts or major capital projects, that are legally restricted to expenditures for specific purposes. Department State Special Revenue funds include the Diagnostic Laboratory, the Brand Inspection, and the Per Capita Tax, which funds the department operations.

Federal Special Revenue Fund - to account for proceeds of specific federal revenue sources that are legally restricted to expenditures for specific purposes. Department Federal Special Revenue funds include, Meat and Poultry Inspection, Bison Trap and Homeland Security.

Fiduciary Fund Category

Agency Fund - to account for resources held by the state in a custodial capacity. The department agency funds include Beef Check-Off, Horse Racing Exotic Wagering, and the Producers Milk Pool.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2005 and June 30, 2004.

3. Direct Entries to Fund Balance

Direct entries to fund balance in the General Fund include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The majority of direct

entries to fund balances in the State Special Revenue Fund and Federal Special Revenue Fund relate to corrections of errors in previous fiscal years.

4. Other Financing Sources and Accounting Entity Transfers

During fiscal year 2004-05 the department transferred $545,000 out of the Brands Enforcement and the Centralized Services divisions to cover negative cash balances in certain state special revenue funds. The results of these transactions are presented as Accounting Entity Transfers on the Schedule of Expenditures & Transfers-Out and Other Financing Sources on the Schedule of Revenues & Transfers-In.

5. Additions and Deletions to Property Held in Trust

The Agency Fund is primarily used as a holding account for the National Beef Check-Off, Horse Racing Exotic Wagering and the Milk Producers pool monies before they are transferred to the rightful owners. The Additions and Deletions to Property Held in Trust on the Schedule of Changes in Fund Balances & Property Held in Trust in the Agency Fund represent all transactions posted to the Property Held in Trust account some of which are necessary to close out subsidiary detail information, but which are not cash receipts or disbursements. The close out activity is estimated to be $2.5 million in fiscal year 2004-05 and is included in both the report additions and deletions. The close out of the subsidiary detail information did not happen in fiscal year 2003-04.

6. Revenue Estimates

The fiscal year 2003-04 Schedule of Revenues & Transfers-In has large variances in its Budgeted Revenues & Transfers-In Over (Under) Estimated by Class. The department placed some revenue estimates on the accounting system twice.

Department Response

DEPARTMENT OF LIVESTOCK

BRIAN SCHWEITZER, GOVERNOR

PO BOX 202001

STATE OF MONTANA

BOARD OF LIVESTOCK (406) 444-7323
BRANDS ENFORCEMENT DIVISION (406) 444-2045
ANIMAL HEALTH DIVISION (406) 444-2043
CENTRALIZED SERVICES DIVISION (406) 444-9040
MEAT & POULTRY INSPECTION BUREAU (406) 444-5202
MILK & EGG BUREAU (406) 444-9761

HELENA, MONTANA 59620-2001

November 29, 2005

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LEGISLATIVE AUDIT DIV.

Scott A. Seacat
Legislative Auditor
Room 160, State Capitol
P.O. Box 201705
Helena, Montana 59620-1705

Dear Mr. Seacat:

On behalf of the Board of Livestock, I submit the following responses to your audit recommendations for the audit period FY04-05.

Recommendation #1
We recommend the department comply with federal regulations and: A) Direct charge personal service costs to federal grants based on actual time spent by employees; and B) Maintain documentation of hours worked.

Department Response:

Concur:
The department will apply agreed upon indirect charge rates from federal meat inspection funds as operational costs under the 62889 expenditure category rather than personal services in the central service division.

Recommendation #2
We recommend the department: A) Spend brand rerecord fees as allowed in state law; and B) Work with the Board of Livestock to determine the most appropriate way to repay the $130,531 it overspent in fiscal year 2004-05.

Department Response:

Concur:
During the November 2005 Board meeting, the Board of Livestock approved $130,531 emergency per capita fee for FY 2005. The Department has curtailed expenditures and strengthened revenues to bring the account into balance.

Call Montana Livestock Crimestoppers 1-800-503-6084

Recommendation #3
We recommend that the department monitor its employees to ensure the department complies with state law and department policy for depositing inspection fees timely.

Department Response:

Concur:
The Department will continue to monitor department procedures and state law to ensure timely deposits of inspection fees. Employees have had a reaffirmation of policy and if not in compliance will receive corrective action.

Recommendation #4
We recommend the department record its financial activity in accordance with state accounting policy.

Department Response:
Concur with the specific accounting items cited by the auditor:

- A new account code in other services is being created to record this activity.
- Year-end procedures are being written to make sure we are in compliance with this recommendation.
- This was the result of human error and has been corrected.
- We have met with the Department of Revenue and established a procedure to properly record total per capita fee revenue and expense out the 2% collection cost for their service.
- The Department will record the deferred revenue.

Thank you for the opportunity to respond to your audit report. We appreciate the efforts of your staff in identifying and clarifying issues. The department will make every effort to implement the recommendations you have made.

Sincerely,

Marc Bridges, Executive Officer
To the Board of Livestock

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